



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-271490

March 22, 1996

The Honorable John R. Kasich
Chairman
Committee on the Budget
House of Representatives

Dear Mr. Chairman:

In your September 6, 1995, letter to the Comptroller General, you expressed concern that the cash budget does not provide the Congress with complete information on the costs of federal insurance programs. In 1990, the Congress recognized this shortcoming for purposes of controlling and budgeting for loan and loan guarantee programs and passed the Federal Credit Reform Act, which required accrual reporting for credit programs. Based on this experience, you asked GAO to identify options for using accrual concepts in the budget for federal insurance programs¹ and to highlight trade-offs and implementation issues associated with the alternatives. This letter provides an interim report on our work.

The federal government insures individuals and entities against a wide variety of risks ranging from natural disasters to bank failures and pension plan insolvencies. Historically, the private sector has been unwilling or unable to provide insurance against these hazards. The fact that these risks tend to be difficult to predict and catastrophic in size has hindered the development of actuarially sound premium rates and loss reserves. In some cases, the federal government subsidizes insurance in order to achieve public policy objectives. Through insurance programs, the federal government is committed to costs that are uncertain and that are not recognized in the budget when the Congress authorizes the insurance to be provided.

¹The enclosure lists the 13 programs included in our study.

GAO has long maintained that the cash basis of reporting used in the federal budget may significantly distort the government's costs and that the concept of reporting accrual costs in the budget could result in improved disclosure. When the administration proposed accrual budgeting for insurance programs in 1992, we endorsed the concept but urged the Congress reject the proposal made at that time due to serious concerns about the design and implementation of the approach.² As you requested, our current work is focused on more thoroughly developing the significant issues—including design and implementation—in any change in the budget treatment of insurance programs.

Our work to date continues to support our previously stated concern that cash-based budget reporting for federal insurance programs provides incomplete information on the cost of these programs. Cash flows reported in the budget obscure the government's cost and the timing and magnitude of the program's economic impact. The cost of the government's new insurance commitments may be understated or overstated in relation to other federal programs in any particular year because the time between receipt of program collections, the occurrence of an insured event, and the final payment of a claim can extend over several budget periods. As a result, current and future resource allocation may be distorted.

For example, the Pension Benefit Guaranty Corporation (PBGC) collects pension insurance premiums years before the government will have to pay for benefits it insured. In fact, the cash budget has reported a surplus for PBGC in each year since it began operating in 1975. At the same time, PBGC's financial statements, which take into account the future payments to be made resulting from insured events that have already occurred, reported a large accumulated deficit at the end of fiscal year 1995. However, there are also potential future claims from currently operating pension plans not reflected in this accumulated deficit.

The use of accrual concepts in the budget for insurance programs has the potential for enabling budget decisions to be made on the basis of their full expected cost; however, we are still studying a number of significant implementation issues which would have to be addressed before using accruals in budgeting for these programs. Our full report will provide an in-depth analysis of the shortcomings of cash budgeting for insurance programs and the trade-offs and implementation issues which must be considered if the Congress decides to move

²Accrual Budgeting (GAO/AFMD-92-49R, February 28, 1992).

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.**

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

**United States
General Accounting Office
Washington, D.C. 20548-0001**

<p>Bulk Rate Postage & Fees Paid GAO Permit No. G100</p>

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
